

Prophecy Potash Corp.

Condensed Interim Financial Statements

For the period for the three months ended December 31, 2020

(Expressed in Canadian Dollars)

Prophecy Potash Corp.

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For the three months ended December 31, 2020

(Expressed in Canadian Dollars)

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**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

PROPHECY POTASH CORP.Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)

| | As at December 31, 2020 | As at September 30, 2020 |
|---|-------------------------------|--------------------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 215,128 | 337,432 |
| GST receivable | 10,539 | 5,919 |
| Prepaid expenses | 14,202 | - |
| | 239,869 | 343,351 |
| Non-Current | | |
| Exploration and evaluation asset (Note 3) | 183,576 | 181,664 |
| | 423,445 | 525,015 |
| TOTAL ASSETS | 423,445 | 525,015 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 12,047 | 11,720 |
| SHAREHOLDERS' EQUITY | | |
| Reserves (Note 4) | 62,000 | 62,000 |
| Share capital (Note 4) | 1,267,920 | 1,267,920 |
| Deficit | (918,522) | (816,625) |
| | 411,398 | 513,295 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 423,445 | 525,015 |

Nature of operations (Note 1)

These financial statements are authorized for issuance by the Board of Directors on February 26, 2021.

On behalf of the Board of Directors:

"Shawn Smith"
Director

"Ian McDonald"
Director

The accompanying notes are an integral part of these interim financial statements.

PROPHECY POTASH CORP.Condensed Interim Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

| | For the three months ended December 31, 2020 | For the three months ended December 31, 2019 |
|---|---|---|
| | \$ | \$ |
| Expenses | | |
| Consulting fees | 35,000 | - |
| Marketing and investor relations | 25,000 | - |
| Office and administrative | 19,273 | 3,746 |
| Professional fees | 17,079 | 11,400 |
| Regulatory and filing | 3,160 | 682 |
| Travel | 2,385 | - |
| | <u>(101,897)</u> | <u>(15,828)</u> |
| Loss and comprehensive loss for the period | <u>(101,897)</u> | <u>(15,828)</u> |
| Basic and diluted loss per share | <u>(0.00)</u> | <u>(0.00)</u> |
| Weighted average number of common shares outstanding | <u>21,773,399</u> | <u>21,773,399</u> |

The accompanying notes are an integral part of these interim financial statements.

PROPHECY POTASH CORP.

Condensed Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

| | For the three months ended December 31, 2020 | For the three months ended December 31, 2019 |
|--|---|---|
| | \$ | \$ |
| Cash flows used in operating activities | | |
| Net loss for the period | (101,897) | (15,828) |
| Changes in non-cash working capital item: | | |
| Accounts receivable | (4,620) | - |
| Prepaid expenses | (14,202) | - |
| Accounts payable and accrued liabilities | 327 | (46,598) |
| | <u>(120,392)</u> | <u>(62,426)</u> |
| Cash flows to investing activity | | |
| Exploration and evaluation asset | (1,912) | (14,934) |
| | | |
| Net increase in cash | (122,304) | (77,360) |
| Cash, beginning of the period | 337,432 | 557,735 |
| | | |
| Cash, end of the period | <u>215,128</u> | <u>480,375</u> |

The accompanying notes are an integral part of these interim financial statements.

PROPHECY POTASH CORP.

Condensed Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

| | Number of Shares Issued | Share Capital | Reserves | Deficit | Total Shareholders' Equity |
|--------------------------------------|------------------------------------|----------------------|-----------------|------------------|---|
| | | \$ | \$ | \$ | \$ |
| Balance at September 30, 2019 | 21,773,399 | 1,267,920 | 62,000 | (686,304) | 643,616 |
| Net loss for the period | - | - | - | (15,828) | (15,828) |
| Balance at December 31, 2019 | 21,773,399 | 1,267,920 | 62,000 | (702,132) | 627,788 |

| | Number of Shares Issued | Share Capital | Reserves | Deficit | Total Shareholders' Equity |
|--------------------------------------|------------------------------------|----------------------|-----------------|------------------|---|
| | | \$ | \$ | \$ | \$ |
| Balance at September 30, 2020 | 21,773,399 | 1,267,920 | 62,000 | (816,625) | 513,295 |
| Net loss for the period | - | - | - | (101,897) | (101,897) |
| Balance at December 31, 2020 | 21,773,399 | 1,267,920 | 62,000 | (918,522) | 411,398 |

The accompanying notes are an integral part of these interim financial statements.

PROPHECY POTASH CORP.

Notes to the Condensed Interim Financial Statements

For the period ended December 31, 2020

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Prophecy Potash Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on March 29, 2019. The Company is in the business mineral property exploration and was listed on the Canadian Securities Exchange (“CSE”) on August 9, 2020 after completing its initial public offering pursuant to a prospectus dated May 10, 2020. The Company’s stock symbol is “NUGT”.

The Company has an option agreement to earn an interest in a mineral property located near Fort St. James, British Columbia (Note 3) and has not yet determined whether this property contains reserves that are economically recoverable. The recoverability of amounts from the property is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying property, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under the property option agreement and to complete the development of the property and upon future profitable production or proceeds for the sale thereof.

The Company’s head office, principal address and registered and records office is located at 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada, V6E 4N7.

The Company’s ongoing operations are ultimately dependent upon the success of its business activities and its ability to attain profitable operations and generate funds therefrom and/or to raise equity capital or borrowings sufficient to meet current and future obligations. Management expects to finance operating costs over the next twelve months with public and private financing endeavors.

The Company has no source of operating revenue, has incurred net losses since inception and as at December 31, 2020 has a deficit of \$918,522 (September 30, 2020 - \$816,625). Its continued existence will be dependent on the receipt of related party debt or equity financing on terms which are acceptable to the Company.

2. BASIS OF PREPARATION

Statement of compliance

The Company applies International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of February 28, 2021, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended September 30, 2020, except as noted below. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending September 30, 2020 could result in restatement of these unaudited condensed consolidated interim financial statements.

Basis of presentation

These financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

PROPHECY POTASH CORP.

Notes to the Condensed Interim Financial Statements

For the period ended December 31, 2020

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

Approval of the financial statements

The condensed interim financial statements of the Company for the period ended October 31, 2020, were approved and authorized for issuance by the Board of Directors on February 26, 2021.

3. EXPLORATION AND EVALUATION ASSET

Indata Property, British Columbia, Canada

The Company has entered into an agreement with Eastfield Resources Ltd. (“Eastfield”) whereby it obtained the option to acquire an undivided 60% interest in Eastfield’s 91.2% - owned Indata copper-gold property (“Indata Property”) located 120 kilometres northwest of the community of Fort St. James, British Columbia. The Indata Property comprises 16 mineral claims totaling 3,189 hectares. The residual 8.8% interest in the Indata Property is held by Imperial Metals Corporation. Eastfield and the Company have a director in common. Refer also to Note 5.

To earn the 60% interest, the Company is required to complete \$2,000,000 in exploration work, make cash payments of \$250,000 (\$40,000 paid) and issue common shares at an aggregate value of \$150,000 (100,000 shares valued at \$10,000 issued) over a five -year term. An aggregate \$2,000,000 exploration program is required to be completed over a five-year term and a minimum \$75,000 exploration program is required to be completed in the first year (completed).

| | Indata Property |
|--------------------------------------|------------------------|
| | \$ |
| Balance at September 30, 2019 | 163,369 |
| Geological | 18,295 |
| Balance at September 30, 2020 | 181,664 |
| Geological | 1,912 |
| Balance at December 31, 2020 | 183,576 |

4. SHARE CAPITAL

Authorized Share Capital

Unlimited number of common shares without par value.

Issued Shares

On August 8, 2020, the Company completed its initial public offering of 5,500,000 common shares at a price of \$0.10 per share for gross proceeds of \$550,000. A cash commission of 6% of the gross proceeds of the offering was paid as a finder’s fee in addition to a corporate finance fee of \$35,000 and 440,000 broker warrants with exercise price of \$0.10 per share exercisable until August 8, 2021.

Escrowed Shares

It is expected that immediately prior to listing on the CSE, an escrow agreement (the “Escrow Agreement”) between the Company and certain shareholders of the Company will be completed resulting in 12,143,999 common shares (the “Escrowed Shares”), representing 57.31% of the issued and outstanding common shares prior to the completion of the Offering, being deposited in escrow. Pursuant to the Escrow Agreement, 10% of the Escrowed Shares will be released from escrow on the Listing Date (the “Initial Release”) and an additional 15% will be released on the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release. These Escrowed Shares may not be transferred, assigned or otherwise dealt without the consent of the regulatory authorities.

PROPHECY POTASH CORP.

Notes to the Condensed Interim Financial Statements

For the period ended December 31, 2020

(Expressed in Canadian Dollars)

4. SHARE CAPITAL (continued)

Stock Option Plan

On August 8, 2019, the Company granted 560,000 stock options to directors and officers. These options have a fair value of \$39,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.14; ii) share price: \$0.10; iii) term: 5 years; iv) volatility: 100%; v) discount rate: 1.23%. These are the only options outstanding as at September 30, 2020 and have a weighted average life remaining of 4.86 years.

Warrants

The continuity of share purchase warrants for the period ended September 30, 2020 is as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|-----------------------------|--------------------|---------------------------------|
| | | \$ |
| Balance, September 30, 2019 | 15,615,999 | 0.05 |
| Granted | 440,000 | 0.10 |
| Balance, September 30, 2020 | 440,000 | 0.10 |
| Balance, December 31, 2020 | 440,000 | 0.10 |

The following share purchase warrants were outstanding as at December 31, 2020:

| Expiry date | Number of warrants | Exercise price | Remaining contractual life (years) |
|----------------|--------------------|----------------|------------------------------------|
| | | \$ | |
| June 25, 2020 | 15,615,999 | 0.05 | 1.48 |
| August 8, 2021 | 440,000 | 0.10 | 0.60 |
| | 16,055,999 | | |

Concurrent with the completed initial public offering on August 8, 2020, the Company granted 440,000 broker warrants exercisable at \$0.10 per share until August 8, 2021. These warrants have a fair value of \$23,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.10; ii) share price: \$0.10; iii) term: 2 years; iv) volatility: 100%; v) discount rate: 2.04%.

5. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors, officers and companies controlled by them as its key management personnel. Amounts paid to key management personnel and/or entities over which they have control during the periods ended December 31 are as follows:

| | 2020 | 2019 |
|---|------|--------|
| | \$ | \$ |
| Exploration and evaluation expenditures | - | 14,934 |

All related party amounts were incurred in the normal course of operations, bear no interest and have no fixed terms of repayment.

PROPHECY POTASH CORP.

Notes to the Condensed Interim Financial Statements

For the period ended December 31, 2020

(Expressed in Canadian Dollars)

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

| | Level | December 31, 2020 | September 30, 2020 |
|--|-------|----------------------|-----------------------|
| | | \$ | \$ |
| Cash | 1 | 215,128 | 337,432 |
| Accounts payable and accrued liabilities | 2 | 12,047 | 11,720 |

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying values.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company has deposited the cash with a high credit quality financial institution as determined by rating agencies. The risk of loss is low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. Accrued liabilities are due within the current operating period. The Company has a sufficient cash balance to settle current liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is not exposed to market risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk, from time to time, on its cash balances. Surplus cash, if any, is placed on call with financial institutions and management actively negotiates favorable market related interest rates.